# Committee on Ways and Means

## China and the Global Economy

China's economy has averaged real GDP growth of 8 percent for the last five year, nearly three times faster than global GDP growth. Such strong and sustained export-oriented growth from a country of 1.3 billion is having considerable effects -- both positive and negative -- on the global economy.

China’s increasing trade presence

- Over the last ten years, China’s trade with the world has grown five-fold from $237 billion in 1994 to $1.2 trillion in 2004.
    - China's trade represented almost 6 percent of all trade around the world in 2003, up from 0.6 percent in 1977.
    - China is the third-largest trading economy after the U.S. and Germany.

China’s trade balance

- China runs a trade surplus with the world. In 2004, China’s $32 billion trade surplus resulted from $593 billion in exports and $561 billion in imports.
    - China’s largest export markets: United States, Hong Kong, and Japan.
    - China’s largest import markets: Japan, the European Union and Taiwan. The U.S. is the sixth largest import market for China.
    - Chinese imports from the world have grown almost 5 times in the period 1994-2004, a rate matched by their export growth.
    - China exported $211 billion to the U.S. in 2004, up from $41.4 billion 1994.
    - The U.S. exported $34.7 billion to China in 2004, up from $9.3 billion in 1994, a 273 percent increase in 10 years.

China’s growth creates export and investment opportunities

- The average income of the Chinese has increased 141 percent since 1994. Along with this, U.S. exports to China have increased 273 percent since this time.
- Total foreign direct investment (FDI) in China reached $64 billion in 2004. China is the largest recipient of FDI among emerging economies.
- Investment in China by U.S. firms has also increased with the growth of the Chinese economy. U.S. FDI in China reached $3.9 billion in 2004. The U.S. is responsible for 6.1 percent of the foreign direct investment that took place in China in 2004.

China’s Exchange Rate

- The Chinese yuan has been pegged to the dollar at an exchange rate of 8.28 = $1 since 1994
- Some observers note that China is artificially manipulating the exchange rate so to lower the cost of its exports. Precise estimates of the magnitude of the undervaluation of the yuan are difficult to make.

- The Administration has begun pressuring China to create a more flexible exchange rate as soon as possible and has begun regular meetings to provide technical assistance.
- In September 2004 at the U.S.-China Joint Economic Committee (JEC) meeting in Washington, China has stated its “commitment to further advance reform and to push ahead firmly and steadily to a market-based flexible exchange rate."
- It is unknown exactly when China will make a move on exchange rate reform. China will likely revalue the yuan when it is best for them, but this is likely to be a gradual process. Currently, there are considerable risks for the Chinese in floating their currency:
    - A revaluation will hurt China’s position as a low cost producer in the world, potentially harming their export industries.
    - The crush of currency speculation could cause the yuan to go up considerably further than the Chinese would desire.
    - The Chinese government holds so many Treasury bonds that any large sale of dollar-denominated assets could negatively impact the price of these bonds, thereby depressing the value of the government’s portfolio.